

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2016

Docket No. ACR2016

CHAIRMAN'S INFORMATION REQUEST NO. 11
AND NOTICE OF FILING UNDER SEAL

(Issued January 27, 2017)

To clarify the basis of information provided by the Postal Service in its FY 2016 Annual Compliance Report (ACR), filed December 29, 2016,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than February 3, 2017.

Domestic Market Dominant Negotiated Service Agreements (NSAs)

1. On page 65 of the FY 2016 ACR, regarding the PHI Acquisitions, Inc. NSA (PHI NSA), the Postal Service states that "using the Commission's preferred methodology, as also shown in USPS-FY16-30, the net value of the [PHI] NSA to the Postal Service's net financial position over the contract year was negative \$1.349 million." The Standard Mail elasticity used to calculate the net value of the PHI NSA is -0.788.² On January 23, 2017, the Postal Service provided FY 2016 elasticities.³ The updated elasticity for Standard Enhanced Carrier Route is -0.846. Market Dominant Demand Analyses at 14. The updated elasticity for Standard Regular Machinable Non-Letters is -0.484. *Id.* at 13.

¹ United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016 (FY 2016 ACR).

² Library Reference USPS-FY16-30, December 29, 2016, Excel file "FY16 30 ACR_NSA_2016.xlsx," tab "4_Commission's Methodology," cell D14.

³ See Market Dominant Demand Analyses, FY 2016, January 23, 2017, Word file "Demand Equation Tables (md).doc" (Market Dominant Demand Analyses).

- a. Please confirm that 85.35 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Carrier Route⁴ and 14.65 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Pre-Sort Regular.⁵ If not confirmed, please explain.
- b. With the volume distribution from part a. and the FY 2016 elasticities, please confirm that the FY 2016 Standard Mail elasticity for PHI is -0.793.
 - i. If not confirmed, please explain.
 - ii. If confirmed, please provide an updated calculation of the net value of the PHI NSA.

Financial Analysis

2. The following questions pertain to the mail fee revenue provided in Library Reference USPS-FY16-NP28, December 29, 2016.
 - a. Please confirm the fee revenue by mail class provided in Excel file "Attachment A_MD Fee Distribution.xls," worksheet "MD Fees." If not confirmed, please provide the correct amounts and any additional fee categories needed to reconcile total market dominant fees.
 - b. Please confirm that First-Class Picture Permit Fees should not be included in First-Class Fees because they are already included in the MD Billing Determinants. If not confirmed, please correct and explain.
 - c. Please confirm the fee revenue by mail class provided in Excel file "Attachment B_COMP Fee Distribution.xls," worksheet "COMP FEES," filed under seal. If not confirmed, please provide the correct amounts and any additional fee categories needed to reconcile total competitive fees.

⁴ Library Reference USPS-FY16-30, Excel file "FY16 30 ACR_NSA_2016.xlsx," tab "2_MC2014-21 PHI NSA," cells J22:J26.

⁵ *Id.* at cells J12:J18.

- d. Please provide a distribution breakdown of FY 2016 market dominant mail fees for each product in each of the mail categories shown in subsequent tabs included in Excel file "Attachment A_MD Fee Distribution.xls." Include with your response all underlying calculations and source workpapers.
 - e. Please provide a distribution breakdown of FY 2016 competitive mail fees for each product in each of the mail categories shown in subsequent worksheets included in Excel file "Attachment B_COMP Fee Distribution.xls," filed under seal. Include with your response all underlying calculations and source workpapers.
3. The Postal Service's public Cost and Revenue Analysis (CRA) reports for the last 3 years show volume-variable and product-specific cost-per-piece declining from \$1.569 in FY 2014 to \$1.243 in FY 2016 (a 20.8-percent decrease) for Ground.
- a. Please explain why attributable cost-per-piece decreased by over 20 percent in the last 2 years for Ground.
 - b. Please explain why all other competitive products' attributable cost-per-piece (except International) increased while Ground decreased.
4. The Postal Service's November 15, 2016 press release, "U.S. Postal Service Reports Fiscal Year 2016 Results," states "[o]perating expenses increased in 2016 compared to [2015]. In addition to a \$922 million increase in workers' compensation expense, compensation and benefits expenses increased by approximately \$1.2 billion and transportation costs increased by \$413 million. The growth in labor and transportation costs is largely due to the increase in Shipping and Packages volumes, which are more labor-intensive to process and require greater transportation capacity than mail."
- a. Of the \$413 million cost increase in transportation, what amount is traceable to Shipping and Packages volume?
 - b. Of the \$1.2 billion in compensation and benefits expense increases, what amount is traceable to Shipping and Packages volume?

- c. The FY 2016 Form 10-K filed by the Postal Service indicates that in FY 2016, the Postal Service employed 509,000 career employees and 640,000 total employees, which is an increase in the corresponding figures from the FY 2015 Form 10-K of 492,000 career employees and 622,000 total employees.⁶
 - i. Is the 18,000-employee increase in headcount “largely due to the increase in Shipping and Packages volumes?”
 - ii. Of the 18,000-employee increase, what amount is traceable to Shipping and Packages volumes?
- 5. The Postal Service’s November 15, 2016 press release, “U.S. Postal Service Reports Fiscal Year 2016 Results,” states “[t]o drive growth in revenue and better serve [its] customers, [the Postal Service] continue[s] to invest in [its future] by leveraging technology, improving processes and adjusting our network.” It further states that “[i]n 2016, [the Postal Service] invested \$1.4 billion, an increase of \$206 million over 2015, to fund some of our much-needed building improvements, vehicles, equipment and other capital projects.”
 - a. How much of the \$1.4 billion investment mentioned was spent on the new Next Generation Delivery Vehicle (NGDV)?
 - b. How many vehicles were purchased?
 - c. Please refer to Library Reference USPS-FY16-2, December 29, 2016.
 - i. Please confirm that 69.5 percent of the costs are institutional.
 - ii. Please confirm that only 5.2 percent of the costs in this segment were attributed to domestic competitive products. If not confirmed, please clarify.
 - iii. Please indicate whether the depreciation costs for NGDVs purchased in or prior to FY 2016 are separately accounted for in

⁶ Postal Service FY 2016 Form 10-K Statement, November 15, 2016, at 4, 22; Postal Service FY 2015 Form 10-K Statement, November 13, 2015, at 4, 20.

the public library references in this docket and, if so, where. Please also indicate how the method for attributing depreciation costs for NGDVs differs from that of the older vehicle fleet.

6. Please refer to Library Reference USPS-FY16-2.
 - a. Please specify the purpose of City Delivery Special Purpose Routes and explain what distinguishes these routes from other routes.
 - b. Please describe in detail the costs that appear in this cost segment. Further, please describe the basis for attribution of this segment, including any other cost components or cost pools on which these costs are “piggybacked.”
 - c. Please confirm that 58 percent of the costs of City Delivery Special Purpose Routes are classified as institutional.
 - d. Please confirm that 25.8 percent of the total costs in this segment are attributed to competitive products. If not confirmed, please clarify.
7. Please refer to Library Reference USPS-FY16-2.
 - a. Please identify what activities constitute Delivery Support activities.
 - b. Please confirm that 63 percent of these costs are institutional. If not confirmed, please clarify.
8. Please refer to Library Reference USPS-FY16-2.
 - a. Please identify what activities constitute In-Office Support activities.
 - b. Please confirm that 34.5 percent of these costs are institutional. If not confirmed, please clarify.
9. Please *compare* Library Reference USPS-FY16-2 *and* Docket No. ACR2015, Library Reference USPS-FY15-2, December 29, 2015.
 - a. Please explain why C/A 10 Rural Carrier costs saw a 15.66-percent increase over the same period last year compared to a 3.26-percent increase for C/S 7 City Delivery Carriers – Street Activity.

- b. Please explain why C/S 7 City Delivery Carriers – Street Activity in FY 2016 saw a 17.27-percent increase for First-Class Mail parcels and only a 3.26-percent increase for competitive products combined.
 - c. Please explain why C/S 10 Rural Carriers in FY 2016 saw a 37.72-percent increase for First-Class Mail parcels and only a 15.66-percent increase for competitive products combined.
- 10. Please refer to Library Reference USPS-FY16-39, December 29, 2016.
 - a. Please confirm that these materials indicate that, for FY 2016, the Postal Service paid only the required institutional cost contribution of 5.5 percent. If not confirmed, please explain and demonstrate how the Postal Service accounts for the institutional cost contribution.
 - b. Please explain and demonstrate how the Postal Service accounts for the Assumed Federal Income Tax.

Special Services

- 11. Please refer to page 61 of the FY 2016 ACR and Library Reference USPS-FY16-43, December 29, 2016, Excel file “IC2016Public.ICSUMMARYRpt.xls.”
 - a. Please confirm that cell J49 of Excel file “IC2016Public.ICSUMMARYRpt.xls” reflects that the cost coverage for the Special Services product Money Orders is 91 percent.
 - b. Please confirm that page 61 of the FY 2016 ACR states that the cost coverage for the Special Services product Money Orders is 133.99 percent.
 - c. If confirmed for both, please explain the difference.

12. Please refer to the table below created using the public CRA and Revenue, Pieces, and Weight (RPW) report from Library References USPS-FY16-1 and USPS-FY16-42, both filed December 29, 2016.

	CRA		RPW		Difference	
	Revenue (\$Millions)	Volume (Thousands)	Revenue (\$Millions)	Volume (Thousands)	Revenue	Volume
Market Dominant Special Services						
Address Management Services	\$ 16.7				\$ 16.73	-
Caller Service	\$ 94.4				\$ 94.35	-
Credit Card Authentication (note 4)	\$ 16.9				\$ 16.94	-
Customized Postage	\$ 0.0				\$ 0.01	-
Money Orders	\$ 156.4	90,289	\$ 153.1	90,289	\$ 3.27	0
Post Office Box Service	\$ 284.0		\$ 284.0	5,911	\$ 0.00	(5,911)
Stamp Fulfillment Services	\$ 3.7				\$ 3.71	-
Other Domestic Special Services			\$ 111.1	3,049	\$ (111.10)	(3,049)
Other International Special Services			\$ 0.008	81	\$ (0.01)	(81)
Total Ancillary Services	\$ 1,238.3	4,719,991	\$ 1,238.3	4,719,991	\$ (0.00)	-
Total Domestic Special Services	\$ 1,810.3	\$ 4,810,280	\$ 1,786.4	\$ 4,819,321	\$ 23.92	(9,041)

Where possible, please provide the missing volumes and revenues and explain each of the differences shown in the table, with a focus on reconciling the total domestic Special Services values from the CRA and RPW report.

Service Performance

13. Please provide a table detailing the following information regarding Village Post Offices (VPOs):
- The number of VPOs in existence at the beginning of FY 2016
 - The number of VPOs opened in FY 2016
 - The number of VPOs closed in FY 2016
 - The number of VPOs in existence at the end of FY 2016.

By the Chairman.

Robert G. Taub